



June 10, 1983

MAY 1983 MONTHLY REPORT
Surveys of Consumer Attitudes

Richard T. Curtin, Director

CONSUMERS OPTIMISTIC

- ** In the May 1983 survey, the Index of Consumer Sentiment was 93.3, up from 89.1 in April and 70.4 in January 1983. This rapid improvement in consumer sentiment has brought the Index to its highest level in more than a decade--just below the 1972 peak level of 94.4
- ** Among families with incomes of \$25,000 or more, the Index rose to 101.0 in the May 1983 survey, from 99.0 in April and 78.8 in January. Since the start of 1983, gains of 20 Index-points or more were recorded by residents of each major geographic region, and among all age subgroups.
- ** More families than ever before reported improvement in current business conditions as well as expected improvement during the year ahead. In the May 1983 survey, 62 percent reported current business conditions had improved over those of a year earlier, and 55 percent expected business conditions to improve during the year ahead. Despite this record level of optimism about the short term economic outlook, as many families expected good times as expected bad times financially in the economy as a whole during the next five years (39 percent).
- ** Favorable economic developments dominated the news heard and recalled by consumers in the May survey to a greater extent than at any other time in the past quarter century. The major news items reported were favorable developments in unemployment and interest rates. Since the start of 1983, the proportion of families that expected declines in unemployment during the year ahead rose to 42 percent from 23 percent.
- ** Favorable attitudes toward buying conditions for houses rose to 64 percent in the May 1983 survey (a new all-time record), while attitudes toward market conditions for cars remained unchanged from April at 66 percent (an all-time record level). Unlike past peak levels, buying attitudes are now more dependent on interest rates. Recent declines in interest rates have already reduced the backlog of postponed purchases by a substantial amount--half the level recorded six months earlier. Just as declines in interest rates stimulated rapid and substantial improvement, increases in interest rates are likely to cause serious and immediate erosion of favorable buying attitudes.

Short Term Outlook Never Brighter

Consumers continued to report significant improvements in the current state of the economy in the May 1983 survey. The proportion of families that reported improvements in the economy rose to 62 percent in May, up from 51 percent in April and just 16 percent in January 1983. At 62 percent, more families in the May 1983 survey reported improvement in the current state of the economy than at any other time during the prior quarter century. Although the record number that reported recent improvements in large part reflects the depth and length of the past recession, these data clearly indicate the majority of consumers think the recession has ended.

For the second consecutive month, a new all-time record number of consumers expected the economy to improve in the year ahead. Among all families in the May 1983 survey, 55 percent expected business conditions to improve during the year ahead, up from 53 percent in April. Just 6 percent of all families expected worsening business conditions in the May 1983 survey. When asked why they expected the economy to improve, consumers cited favorable trends in employment, interest rates, and prices. Not only did consumers expect improvement in business conditions, but they have increasingly come to expect these improvements to lead to good economic times during the upcoming year. Among all families in the May 1983 survey, 65 percent expected good times financially in the economy as a whole, up from 56 percent in April, and 34 percent in January 1983.

Although there was widespread optimism about economic trends during the upcoming year, many fewer consumers were as optimistic about long-term economic prospects. Among all families, an equal proportion of respondents in the May 1983 survey expected good as expected bad times financially in the economy as a whole during the next five years (39 percent), largely unchanged from the month earlier reading. Although long-term expectations have become significantly more favorable than during the past several years, these data indicate that the recovery expected during the upcoming year is not expected to be sustained over the longer term.

Good News Dominates

News heard and recalled of recent economic developments was more favorable in the May 1983 survey than at any other time during the prior quarter century. More than twice as many favorable as unfavorable developments were reported (80 versus 29 percent). Reports about increases in employment were more frequent than reports of increases in unemployment (28 versus 17 percent), and reports of interest rate declines were more frequent than of interest rate increases (16 versus 1 percent).

In addition to having heard of recent increases in employment, the respondents in the May 1983 survey also expected more favorable trends in employment during the year ahead. Among all families, 42 percent expected the unemployment rate to decline during the year ahead, unchanged from April and well above the 23 percent recorded in January 1983. Just 13 percent of all families expected unemployment to increase during the year ahead in the May 1983 survey, the lowest level recorded since the 1960s.

In the May 1983 survey, consumers expected the annual rate of inflation to average 4.6%, unchanged from the April survey, and below the 5.0% recorded one year earlier.

Fewer families expected interest rates to decline in the year ahead in the May 1983 survey (31 percent) than either one month earlier (34 percent), or one year earlier (43 percent). Interest rate increases were expected about as frequently in May 1983 (20 percent) as one year earlier (19 percent), while the proportion of families that expected interest rates to remain unchanged at current levels during the year ahead rose to 47 percent from 34 percent one year earlier. Despite the small decline in favorable interest rate expectations, these expectations remain near record favorable levels.

Favorable Buying Attitudes

The May 1983 survey recorded further small improvements in attitudes toward buying conditions. The proportion of all American families holding favorable attitudes toward buying conditions for large household durables rose to 67 percent in May from 61 percent in April 1983. Favorable attitudes toward buying conditions for houses rose to 64 percent in May 1983 (a new all-time record) from 61 percent in April, while attitudes toward market

conditions for cars remained unchanged from April at 66 percent (an all-time record level). In each market, the May 1983 survey recorded more frequent mentions of lower rather than higher prices, and lower rather than higher interest rates.

The most distinctive aspects of the current recovery in buying attitudes have been not only the speed and extent of improvement, but also the changed pattern of reasons given by consumers for these improvements. Throughout the past decade, improvements in buying attitudes were paced by increases in buy-in-advance price rationales. In the current recovery, however, the improvements have been paced by declines in current interest rates. For example, from February 1975 to May 1977, favorable house buying attitudes rose from 20 percent to a cyclical peak of 63 percent. At that same time, the frequency of buy-in-advance price rationales rose from 6 to 47 percent. Thus far in the current recovery, favorable attitudes toward buying conditions for houses have risen to a new all-time record of 64 percent in May 1983, from 19 percent just one year earlier. During the past year, buy-in-advance price rationales rose from 4 to only 7 percent, while mentions of the availability of lower interest rates rose from 6 to 57 percent. In a similar fashion, the recent improvements in attitudes toward buying conditions for cars and household durables have been based on lower current interest rates rather than on the expectation of higher future prices.

Recent declines in interest rates have already reduced the backlog of postponed purchases to a substantial extent. In the May 1983 survey, 17 percent of all American families reported that they had postponed purchases due to high interest rates, approximately half the 33 percent recorded six months earlier (Table A). The proportion of families that reported that they had postponed purchases of automobiles fell to 5 percent in May 1983 from 10 percent in April. And for the first time during the past year, postponed car purchases were reported less frequently than either houses (6 percent) or household durables (7 percent). The median interest rate that would have been charged on the postponed purchases was 15.1% in May, down from 16.6% in April, and the lowest rate recorded during the past year (Table B). The highest interest rate consumers would have been willing to pay on these postponed purchases was 11.3% in May 1983, unchanged from one month earlier.

The heightened dependence of buying attitudes on interest rates will continue to shape subsequent developments in buying attitudes. Further declines in interest rates will continue to support favorable buying attitudes, while increases in interest rates are likely to cause serious and immediate reversals in favorable buying attitudes. Even if interest rates were to stabilize at current levels, their favorable impact on buying attitudes would gradually recede over time as people became accustomed to the prevailing rates.

Optimistic Outlook for Personal Finances

Personal financial expectations are now more favorable than at any other time during the past decade. The proportion of American families that expected their financial situation to improve during the year ahead reached 43 percent in the May 1983 survey, up from 40 percent in April, and 34 percent in January 1983. Just 6 percent of all families expected their financial situation to worsen during the upcoming year, down from 9 percent in April, and 19 percent in January 1983. Personal financial expectations are now more favorable than at any time during the prior decade. From January to May 1983, the proportion of families that expected their nominal income to increase 10% or more rose from 20 to 29 percent, while the proportion of families that expected their income to remain unchanged or decline during the year ahead fell to 40 from 45 percent. Coupled with lower rates of expected inflation, nearly one-in-four families in the May 1983 survey expected real income increases during the year ahead.

Although consumers held very optimistic expectations of future change in their personal financial situation, evaluations of their current financial situation were not as favorable. In the May 1983 survey, 34 percent of all families reported that their financial situation had improved, down from 39 percent in April. Nearly as many families reported that their financial situation had worsened in the May 1983 survey--33 percent, up from 31 percent in April. Income declines continue to be the major reason given by consumers for these unfavorable evaluations. In the May 1983 survey, 20 percent of all families reported that their family income had declined during the prior year, up from 19 percent in April.

* * *

The May 1983 survey was conducted between April 26, 1983 and May 27, 1983, and included 700 completed interviews.

TABLE A

INTEREST RATE EFFECT ON CONSUMER PURCHASES
DURING THE LAST SIX MONTHS

	Nov. 1981	Jan. 1982	Feb. 1982	Apr. 1982	May 1982	July 1982	Aug. 1982	Sept 1982	Oct. 1982	Nov. 1982	Dec. 1982	Jan. 1983	Feb. 1983	Mar. 1983	Apr. 1983	May 1983
Postponed Purchases: ^a	37%	33%	33%	33%	31%	30%	36%	35%	35%	33%	31%	28%	25%	24%	23%	17%
Vehicles	15	12	10	12	12	12	13	14	15	13	15	12	10	9	10	5
House, home repairs	15	10	11	12	11	9	10	9	10	8	8	7	8	8	5	6
Household durables	8	10	10	8	7	9	11	9	8	12	9	8	9	6	7	7
Other	5	6	7	8	5	5	7	6	6	5	7	2	5	6	2	1
No postponed purchase	62	66	66	67	68	68	62	63	65	66	67	66	73	76	76	82
DK; NA	1	1	1	*	1	2	2	2	*	1	2	5	2	*	1	1
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

* Less than 0.5 percent.

^a Items may add to more than total, due to multiple mentions.
See Table B for question wording.

TABLE B

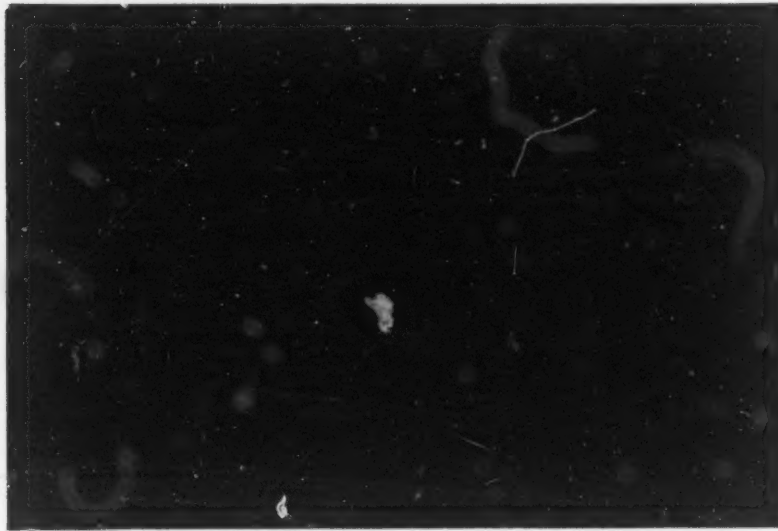
The questions were: "Have interest rates caused you to postpone making any purchases during the last six months?" "What was postponed?" "What interest rate would have been charged on any money borrowed for (ITEM)?" and "What is the highest interest rate at which you would have purchased (ITEM)?"

7/12/83

U7475-2

A

SURVEYS OF CONSUMER ATTITUDES



Institute for Social Research

TABLES AND CHARTS

JUNE 1983

The June 1983 survey is the 177th in a series of surveys of consumer attitudes conducted by the Survey Research Center at The University of Michigan. Initiated in 1946, these periodic surveys provide regular assessments of consumer attitudes and expectations, and are used to evaluate economic trends and prospects. The surveys are designed to explore why changes in consumer attitudes and expectations occur, and how these changes influence consumer spending and saving decisions.

Two charts highlight recent changes and historical patterns for most questions. Recent change charts include quarterly data before 1978 and monthly data starting in January of 1978. Historical series charts show quarterly data before 1978 and 3 month moving averages since then. See the explanatory charts at the end of this book for a detailed description.

All surveys are subject to sampling error because not all members of the population are interviewed. Most results on the total sample for this monthly survey will differ by no more than 4 percentage points in either direction from what would have been obtained by using the same methods on the entire population. See the back of this book for sampling error information.

TABLE OF CONTENTS

CHART/ TABLE	TITLE
1	THE INDEX OF CONSUMER SENTIMENT
2	INDEX OF CONSUMER SENTIMENT WITHIN REGION AND AGE SUBGROUPS
3	COMPONENTS OF THE INDEX OF CONSUMER SENTIMENT
4	CURRENT FINANCIAL SITUATION COMPARED TO A YEAR AGO
5	SELECTED REASONS FOR OPINIONS ABOUT PERSONAL FINANCIAL SITUATION
6	EXPECTED CHANGE IN FINANCIAL SITUATION
7	TREND IN PERSONAL FINANCIAL SITUATION
8	EXPECTED FAMILY INCOME CHANGE DURING THE NEXT 12 MONTHS
9	PAST CHANGE IN REAL FAMILY INCOME
10	EXPECTED CHANGE IN REAL FAMILY INCOME
11	TREND IN FAMILY INCOME AND PRICE COMPARISON
12	NEWS HEARD OF RECENT CHANGES IN BUSINESS CONDITIONS
13	SELECTED ITEMS OF NEWS HEARD OF RECENT CHANGES IN BUSINESS CONDITIONS
14	CURRENT BUSINESS CONDITIONS COMPARED TO A YEAR AGO
15	EXPECTED CHANGE IN BUSINESS CONDITIONS IN A YEAR
16	REASONS FOR OPINIONS ABOUT CHANGES IN BUSINESS CONDITIONS IN A YEAR
17	TREND IN PAST AND EXPECTED CHANGES IN BUSINESS CONDITIONS
18	BUSINESS CONDITIONS EXPECTED DURING THE NEXT 12 MONTHS
19	BUSINESS CONDITIONS EXPECTED DURING THE NEXT FIVE YEARS
20	EXPECTED CHANGE IN UNEMPLOYMENT
21	EXPECTED CHANGE IN INTEREST RATES
22	CHANGE IN PRICES DURING THE LAST 12 MONTHS
23	EXPECTED CHANGE IN PRICES DURING THE NEXT 12 MONTHS
24	UNEMPLOYMENT OR INFLATION MORE SERIOUS ECONOMIC HARDSHIP
25	OPINIONS ABOUT THE GOVERNMENT'S ECONOMIC POLICY
26	BUYING CONDITIONS FOR LARGE HOUSEHOLD GOODS
27	SELECTED REASONS FOR OPINIONS ABOUT BUYING CONDITIONS FOR LARGE HOUSEHOLD GOODS
28	BUYING CONDITIONS FOR HOUSES
29	SELECTED REASONS FOR OPINIONS ABOUT BUYING CONDITIONS FOR HOUSES
30	BUYING CONDITIONS FOR CARS
31	SELECTED REASONS FOR OPINIONS ABOUT BUYING CONDITIONS FOR CARS
32	PLANS TO PURCHASE AN AUTOMOBILE DURING THE NEXT 12 MONTHS
33	CURRENT VEHICLE PURCHASE INTENTIONS
34	FUTURE VEHICLE PURCHASE INTENTIONS

CHART 1 - RECENT CHANGES
THE INDEX OF CONSUMER SENTIMENT

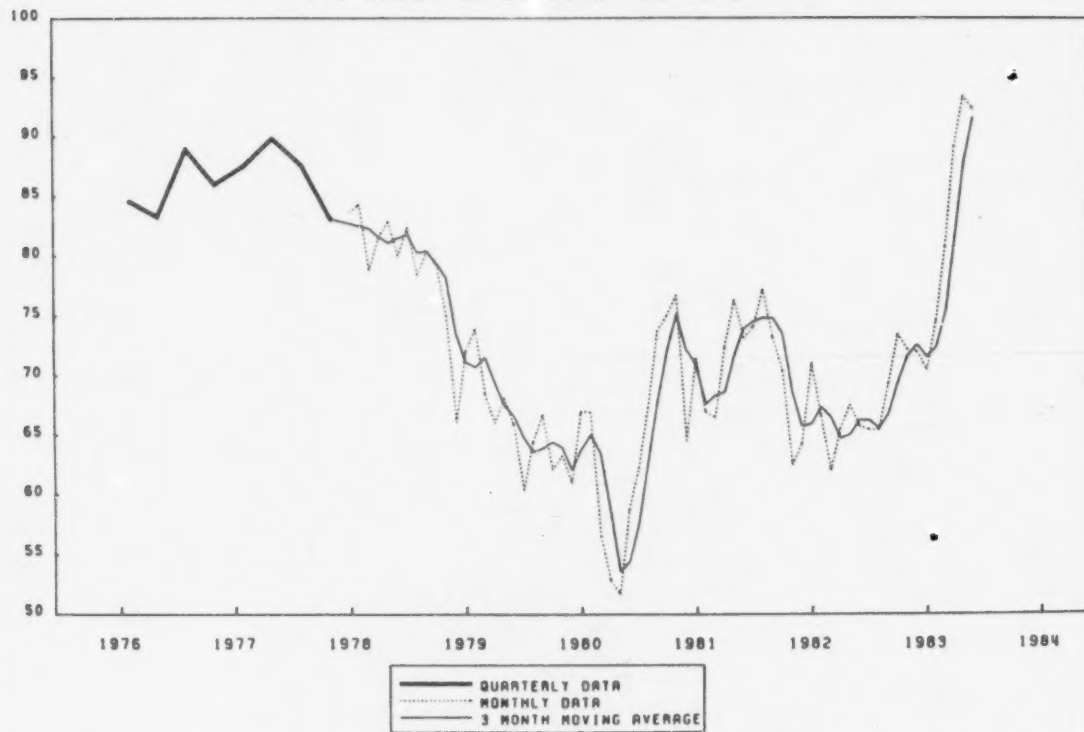


CHART 1 - HISTORICAL SERIES
THE INDEX OF CONSUMER SENTIMENT

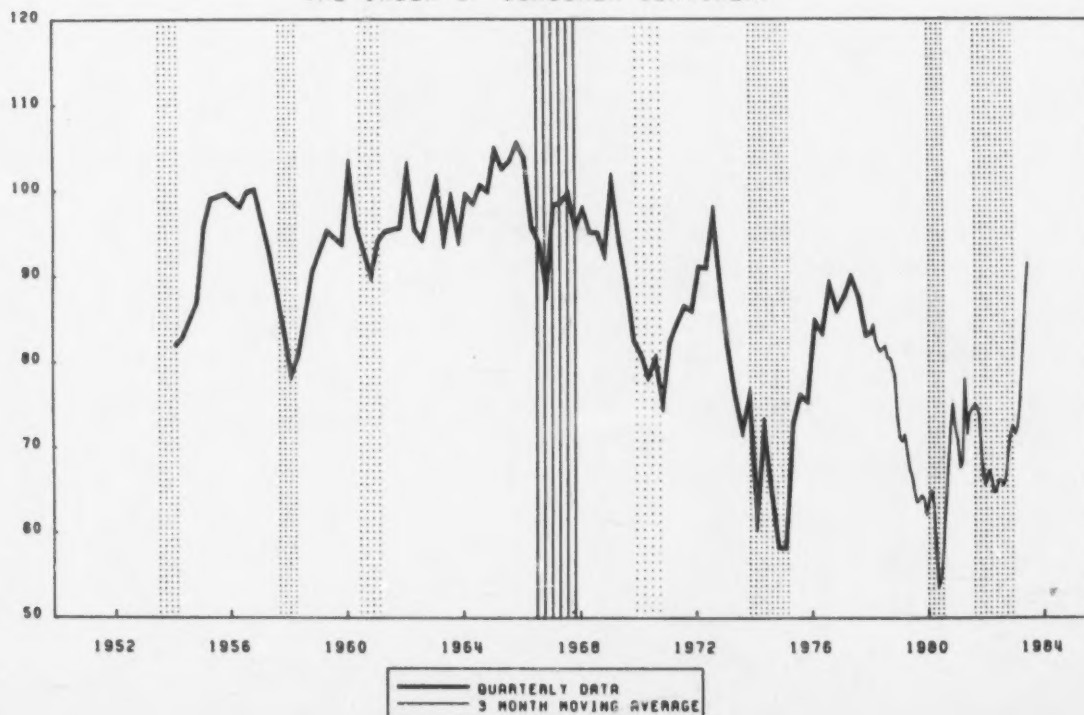


TABLE 1

THE INDEX OF CONSUMER SENTIMENT

DATE OF SURVEY		All families	Families with incomes over \$20,000	Families with incomes over \$25,000
June	1980	58.7	61.6	63.7
July	1980	62.3	67.6	67.3
August	1980	67.3	70.9	74.2
September	1980	73.7	78.1	78.5
October	1980	75.0	76.3	78.7
November	1980	76.7	82.7	87.5
December	1980	64.5	66.9	68.6
January	1981	71.4	74.8	77.1
February	1981	66.9	74.2	77.5
March	1981	66.5	72.1	73.7
April	1981	72.4	77.1	78.0
May	1981	76.3	80.8	85.0
June	1981	73.1	81.2	82.9
July	1981	74.1	80.8	82.1
August	1981	77.2	82.7	85.0
September	1981	73.1	75.2	73.3
October	1981	70.3	74.5	77.9
November	1981	62.5	67.2	66.3
December	1981	64.3	71.0	71.1
January	1982	71.0	77.9	77.8
February	1982	66.5	71.5	72.8
March	1982	62.0	67.0	67.9
April	1982	65.5	71.5	73.2
May	1982	67.5	72.7	74.8
June	1982	65.7	71.4	72.9
July	1982	65.4	68.9	69.2
August	1982	65.4	71.0	73.6
September	1982	69.3	78.4	81.1
October	1982	73.4	77.5	80.9
November	1982	72.1	79.3	81.1
December	1982	71.9	78.0	80.5
January	1983	70.4	78.2	78.8
February	1983	74.6	79.9	81.3
March	1983	80.8	88.4	88.9
April	1983	89.1	97.1	99.0
May	1983	93.3	99.6	101.0
June	1983	92.2	101.2	102.5

CHART 2A - HISTORICAL SERIES
INDEX OF CONSUMER SENTIMENT WITHIN REGION SUBGROUPS

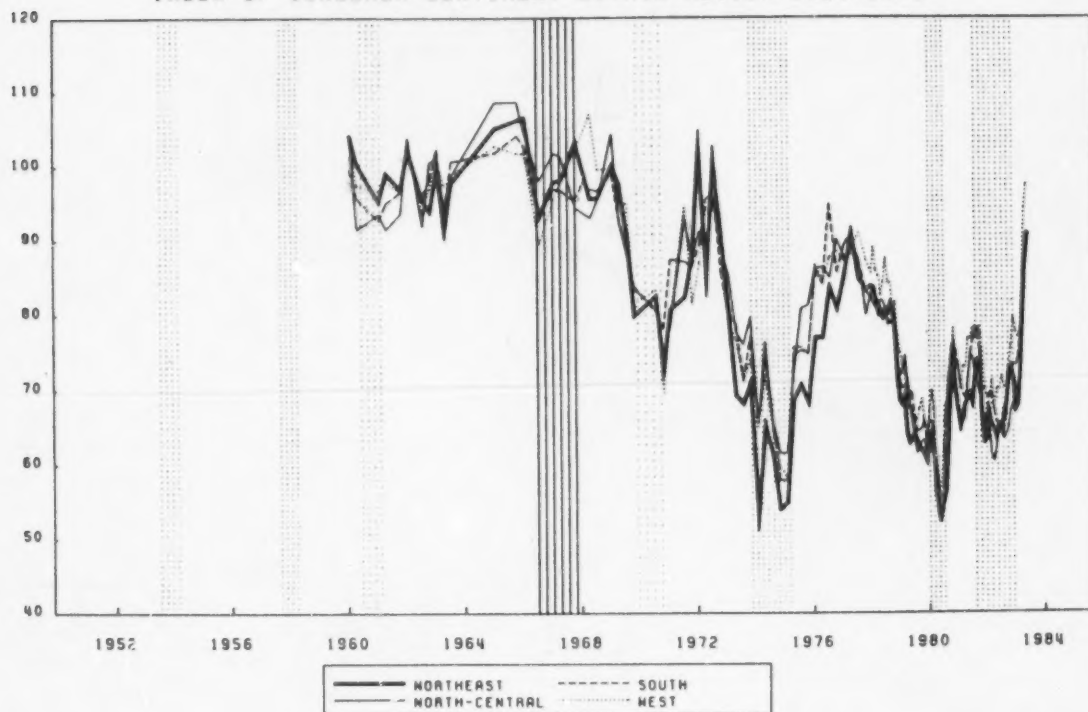


CHART 2B - HISTORICAL SERIES
INDEX OF CONSUMER SENTIMENT WITHIN AGE SUBGROUPS

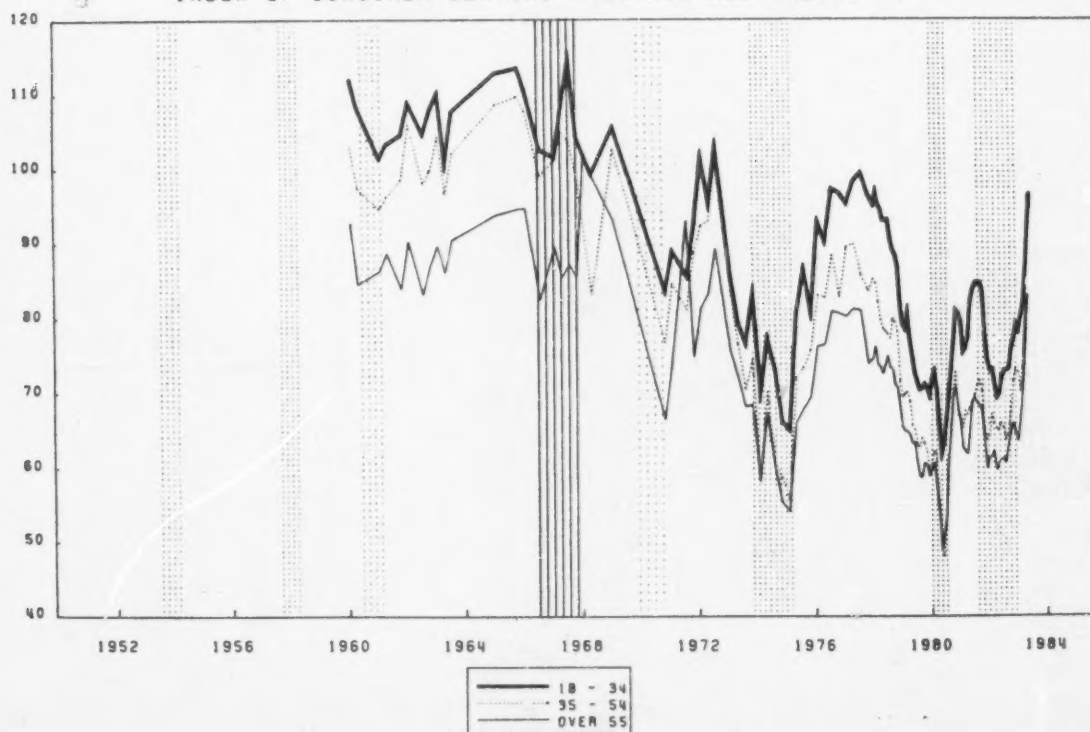


TABLE 2

INDEX OF CONSUMER SENTIMENT WITHIN REGION AND AGE SUBGROUPS

DATE OF SURVEY		CENSUS REGION				AGE OF RESPONDENT		
		North East	North Central	South	West	18-34	35-54	55+
June	1980	54.4	58.0	56.4	67.3	65.9	53.5	58.1
July	1980	55.9	58.5	66.4	68.6	69.9	58.1	58.8
August	1980	59.0	66.2	72.6	68.1	72.0	64.8	66.0
September	1980	76.3	68.3	71.8	79.5	78.6	73.4	69.4
October	1980	75.7	70.2	79.1	73.1	80.2	70.2	74.0
November	1980	71.1	76.2	77.3	81.9	85.3	73.5	70.3
December	1980	62.3	59.9	69.3	64.6	76.0	56.7	60.1
January	1981	68.2	70.9	72.5	74.4	77.2	70.2	67.9
February	1981	64.5	62.6	70.2	70.8	72.5	68.4	59.6
March	1981	66.5	62.6	64.9	73.7	77.3	63.9	58.4
April	1981	72.6	72.7	71.0	74.2	81.5	68.3	66.9
May	1981	66.8	76.6	77.5	82.2	87.7	71.2	70.0
June	1981	68.5	74.0	75.2	73.8	81.7	67.0	69.6
July	1981	68.9	72.2	76.5	78.1	84.2	70.6	67.6
August	1981	77.0	70.1	83.2	79.2	87.8	75.0	67.9
September	1981	75.1	69.9	72.4	76.6	81.4	68.8	69.2
October	1981	67.9	68.2	68.9	79.0	80.7	65.9	64.8
November	1981	55.8	64.7	61.1	68.8	71.3	59.6	57.7
December	1981	65.0	65.3	64.4	61.6	70.9	65.3	56.7
January	1982	68.8	67.3	72.0	76.2	76.6	67.4	68.5
February	1982	65.9	60.6	71.8	68.8	71.5	68.3	59.0
March	1982	60.5	55.8	64.7	68.2	65.5	61.4	58.8
April	1982	67.2	64.6	65.0	65.8	70.6	65.5	60.4
May	1982	62.4	66.5	66.6	75.7	72.7	67.6	62.0
June	1982	65.4	65.0	64.9	68.6	72.4	64.4	60.3
July	1982	65.1	64.0	63.5	71.1	73.4	63.3	60.6
August	1982	68.1	60.6	64.0	70.6	72.6	62.9	60.2
September	1982	70.3	67.2	71.1	68.8	73.0	66.7	68.0
October	1982	77.8	66.2	74.1	79.3	81.2	72.1	65.5
November	1982	70.6	67.9	73.2	79.3	76.6	75.7	63.8
December	1982	66.1	70.0	72.5	80.4	78.9	71.7	64.2
January	1983	64.9	70.5	73.6	72.8	78.8	70.0	62.0
February	1983	72.1	72.3	75.8	77.2	82.1	68.3	72.4
March	1983	82.9	73.7	82.7	84.4	84.9	81.5	75.5
April	1983	89.1	88.0	87.2	95.6	95.8	90.5	80.5
May	1983	89.1	88.0	87.2	95.6	95.8	90.5	80.5
June	1983	95.1	88.7	92.5	94.1	97.8	94.4	83.9

CHART 3 - RECENT CHANGES
CURRENT AND EXPECTED COMPONENTS

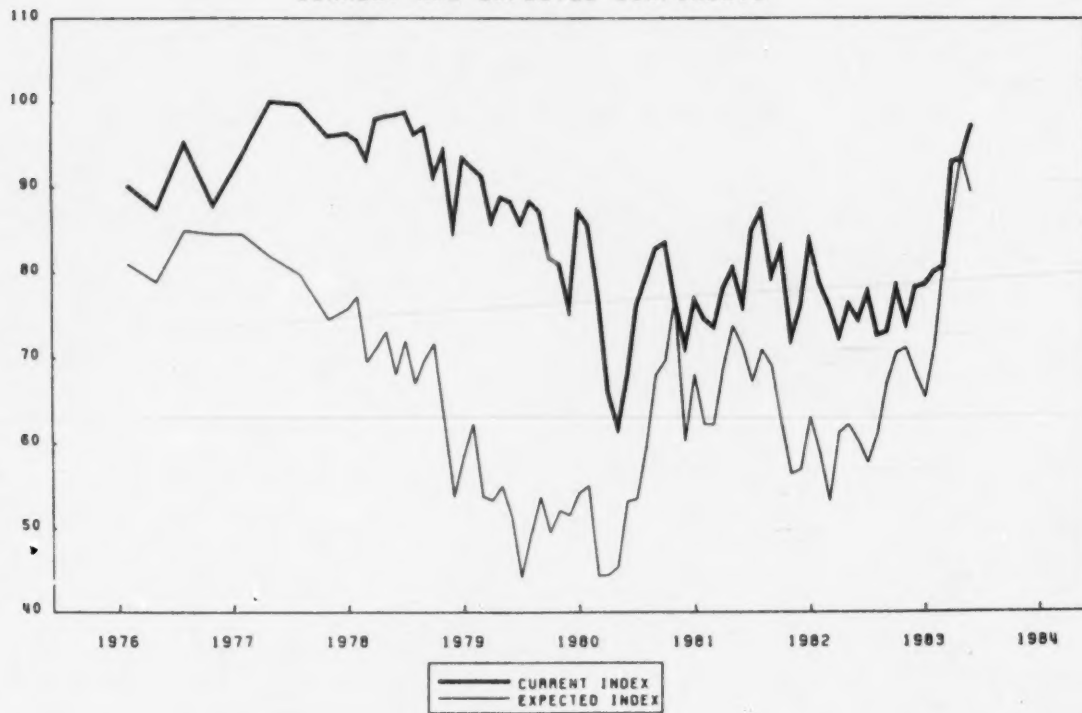


CHART 3 - HISTORICAL SERIES
CURRENT AND EXPECTED COMPONENTS

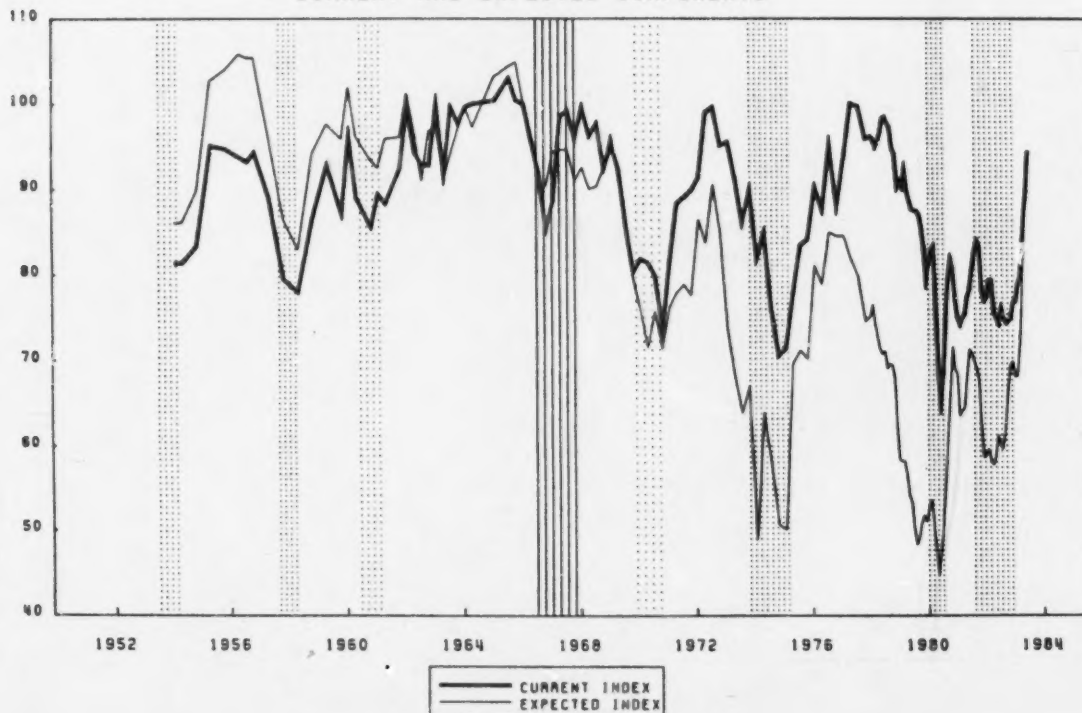


TABLE 3

COMPONENTS OF THE INDEX OF CONSUMER SENTIMENT

		INDEX COMPONENTS +						
		Personal finances		Business conditions		Buying conds.	Current Index	Expected Index
		Current	Expected	12 months	5 years			
DATE OF SURVEY		(1)	(2)	(3)	(4)	(5)	(1,5)	(2,3,4)
June	1980	78	101	43	63	93	67.4	53.0
July	1980	90	105	45	58	104	76.1	53.4
August	1980	93	111	63	60	109	79.4	59.6
September	1980	91	117	83	69	121	82.7	67.9
October	1980	90	108	84	83	123	83.4	69.6
November	1980	83	118	94	93	112	76.4	76.9
December	1980	77	100	64	73	104	71.2	60.2
January	1981	80	109	78	81	116	76.7	67.9
February	1981	80	106	64	73	109	74.4	62.1
March	1981	86	104	68	72	101	73.5	62.1
April	1981	79	111	83	78	121	78.1	68.8
May	1981	95	118	92	81	111	80.4	73.6
June	1981	89	113	91	78	104	76.1	71.2
July	1981	99	114	81	70	118	84.9	67.1
August	1981	100	117	92	72	123	87.1	70.8
September	1981	94	113	80	80	109	79.5	69.0
October	1981	95	110	68	67	117	82.7	62.3
November	1981	85	110	54	56	99	72.1	56.3
December	1981	94	110	54	61	101	75.9	56.8
January	1982	92	115	66	70	124	83.5	62.9
February	1982	91	112	56	65	111	78.6	58.7
March	1982	89	106	44	60	106	75.9	53.1
April	1982	87	111	62	70	99	72.3	61.1
May	1982	94	113	62	72	102	76.1	62.0
June	1982	92	116	58	65	99	74.3	60.1
July	1982	90	113	53	63	110	77.5	57.6
August	1982	89	110	64	69	97	72.5	60.9
September	1982	89	116	76	74	98	72.9	66.9
October	1982	95	119	79	83	106	78.1	70.4
November	1982	85	121	77	86	105	73.8	71.0
December	1982	90	117	74	80	111	78.1	67.9
January	1983	91	115	76	69	111	78.4	65.2
February	1983	89	117	87	81	117	79.9	71.2
March	1983	92	126	113	85	115	80.5	80.9
April	1983	108	131	120	99	131	92.7	86.9
May	1983	101	137	139	100	139	93.1	93.4
June	1983	110	128	134	97	141	96.9	89.2

(1) See Table 4.

(2) See Table 6.

(3) See Table 18.

(4) See Table 19.

(5) See Table 26.

+ : Percent saying "GOOD TIMES" (or "BETTER"), minus percent saying "BAD TIMES" (or "WORSE"), plus 100.

CHART 4 - RECENT CHANGES
CURRENT FINANCIAL SITUATION COMPARED WITH A YEAR AGO

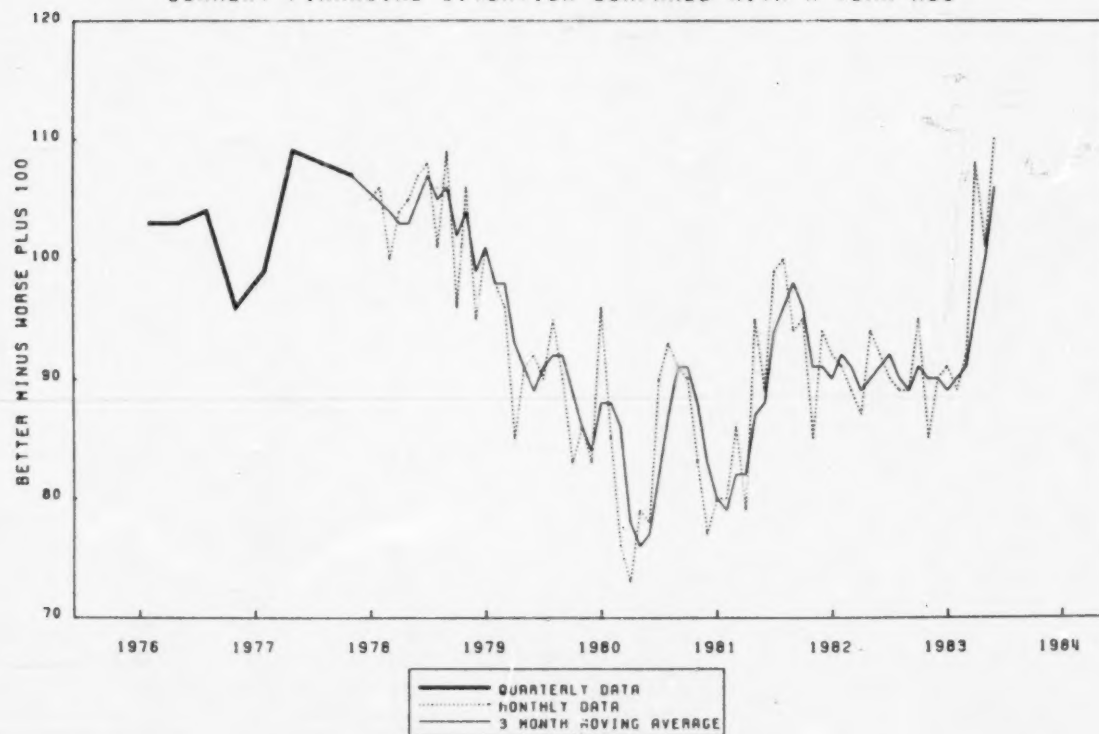


CHART 4 - HISTORICAL SERIES
CURRENT FINANCIAL SITUATION COMPARED WITH A YEAR AGO

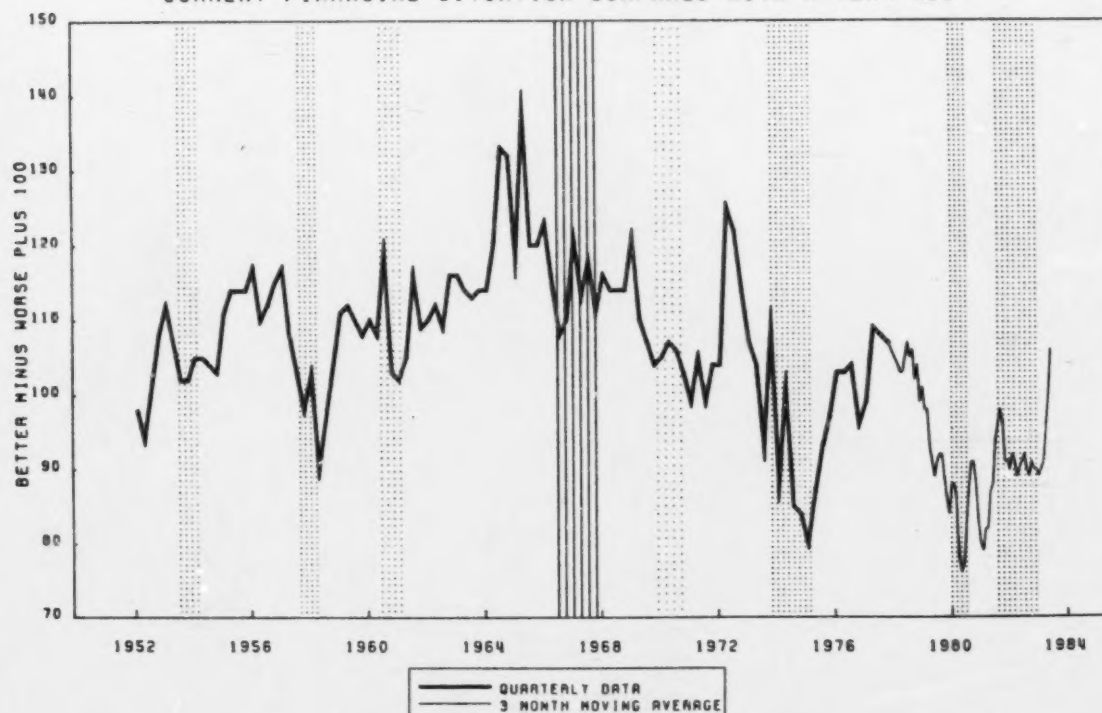


TABLE 4

CURRENT FINANCIAL SITUATION COMPARED TO A YEAR AGO

	June 1982	July 1982	Aug. 1982	Sept 1982	Oct. 1982	Nov. 1982	Dec. 1982	Jan. 1983	Feb. 1983	Mar. 1983	Apr. 1983	May 1983	June 1983
BETTER OFF	30%	31%	29%	31%	34%	31%	28%	29%	30%	31%	39%	34%	38%
SAME	32	28	30	27	27	23	34	33	29	30	30	33	33
WORSE OFF	38	41	40	42	39	46	38	38	41	39	31	33	28
DK,NA	*	*	1	*	*	*	*	*	*	*	*	*	1
TOTAL	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
CASES	703	708	680	695	687	682	682	682	709	696	707	700	714

The question was: "We are interested in how people are getting along financially these days. Would you say that you (and your family living there) are better off or worse off financially than you were a year ago?"

* : Less than half of one percent.